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RHMFISS/HQ USAFRICOM STUTTGART GE PRIORITY

UNCLAS SECTION 01 OF 03 NDJAMENA 000471

SENSITIVE
SIPDIS

STATE FOR AF/C AND S/USSES

NSC FOR GAVIN

LONDON FOR POL - LORD

PARIS FOR POL - BAIN AND KANEDA

ADDIS ABABA ALSO FOR AU

E.O. 12958: N/A

TAGS: PGOV ECON EPET ETRD PREF EINV US CD

SUBJECT: CHAD: ESSO-CHAD MEETS DEBY CRITIQUE AND HOLDS PRODUCTION STEADY, AS IT RESOLVES REMAINING ISSUES

REF: A. NDJAMENA 338

1B. NDJAMENA 194

1C. NDJAMENA 099

SUMMARY

¶1. (SBU) ESSO-Chad Chief De Mahieu told Ambassador October 21 that ExxonMobil had successfully defended its management of the petroleum project during a meeting with President Deby in Washington last month, satisfying the skeptical Deby that the consortium was not/not being pressured by third parties (IFIs, the USG) to keep production lower than necessary and that De Mahieu's own in-country leadership of the project was effective and professional, and that he had the consortium's full support. De Mahieu briefed also on two currently contentious issues between the GOC and ESSO-Chad, the GOC's desire to link the cost of work permits to the worker's salary, and the GOC's attempt to convince ESSO-Chad to pay taxes on revenue it had not earned, both of which the enterprise will refuse to accede. De Mahieu believed that both issues were soluble, with some peripheral concessions on ESSO-Chad's part, but without conceding principle in either case.

¶2. (SBU) De Mahieu said that current production was running steady at just over 120,000 barrels per day, with some fluctuations due to weather conditions, and that ESSO-Chad's goal was to maintain that production level, which could be accomplished only by additional capital investment and agile technical adaptability. De Mahieu confirmed that the consortium was prepared to make the investments necessary if the work permit and added tax issues could be resolved.

¶3. (SBU) The U.S. investment in Chad's oil sector is the single biggest American private enterprise investment in Sub-Saharan Africa and the American economy has been a major beneficiary of this huge investment. During its construction phase, the project generated over 1,000 American jobs and the current 260 American jobs generate over USD 83 million in personal income. Over half of the project's material purchases and contracted labor are U.S.-based, representing USD 300 million in 2008. ExxonMobil and Chevron purchased 24 million barrels of Chad's crude oil in 2008 for distribution and use in the United States. Finally, to date, over USD two billion/billion of profit has been returned to U.S.

shareholders through dividends. Chad depends on its oil royalties, taxes, and fees for most of its public revenues. Reduced production or limitation of future capital investment would have a minor negative impact on the U.S. economy but would be devastating to Chad's public finances. The equities of both the U.S. and Chad are protected by continued close collaboration between ESSO-Chad and the GOC. END SUMMARY.

DEBY MTG: PRODUCTION

¶4. (SBU) ESSO-Chad Chief Stephane De Mahieu told Ambassador October 21 that ExxonMobil had successfully defended its management of the petroleum project during a meeting with President Deby in Washington last month. The company's team had told Deby that it was firmly committed to maximizing its own profits, which implied maximization of production, and that ExxonMobil would not permit of any pressure by any third party to change that policy, in Chad or anywhere else it operated. The ExxonMobil team told Deby that no such pressure had ever been exerted by any third party.

DEBY MTG: RESPECT

¶5. (SBU) The ExxonMobil team had also strongly defended De Mahieu's in-country leadership of the project as effective and professional, and confirmed that he had the consortium's full support. The team explained, apparently to Deby's satisfaction, that personal criticisms of De Mahieu were

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unwarranted, citing the success of the project so far, despite the extreme complexity of the technical and political aspects of the project throughout its history. The team noted that ESSO-Chad had never abandoned operations despite Chad's past political instability, and had stayed in country even during the rebel invasion of February 2008, which Deby acknowledged gratefully. Finally, the team noted that there were issues on the table between the GOC and ESSO-Chad: If such issues could not be resolved in-country, then it would be normal to have recourse to third-party conciliation, mediation, and arbitration, if necessary.

CURRENT ISSUES:
WORK PERMITS

¶6. (SBU) The GOC's attempt to make firms pay for work permits for foreign workers based on the worker's salary rather than at a fixed rate (see Ref A) has been shelved since August but is scheduled to be revived in January. De Mahieu said that if the GOC does go ahead with its work permit scheme, ESSO-Chad will reduce the number of foreign workers, which will in turn reduce production, and the consortium will reconsider plans to make capital investment necessary for long-term production stability. Most of ESSO-Chad's foreign workers are Americans, with Canadians, British, and Australians also employed.

CURRENT ISSUES:
TAXES ON NON-REVENUE

¶7. (SBU) De Mahieu explained the GOC's latest scheme to increase its revenues at ESSO-Chad's expense by demanding "back taxes" allegedly owed by the consortium. The GOC wants to apply the agreed system used for calculating royalties to the system used for calculating taxes owed to the GOC. The result of applying the same system would be that consortium partners would be liable to pay taxes on revenue they had never earned, which is a principle on which ESSO-Chad cannot

and will not concede. The issue has gone informally to the International Chamber of Commerce in Paris for "conciliation."

PRODUCTION STEADY:
120,000 BARRELS/DAY

¶ 8. (SBU) De Mahieu said that current production was running steady at just over 120,000 per day, with some fluctuations due to weather conditions. He said that ESSO-Chad's goal was to maintain that production level, which could be accomplished only by additional capital investment and agile technical adaptability. He added that the consortium was prepared to make the investments necessary if the work permit and added tax issues could be resolved.

ESSO-CHAD AND THE U.S. ECONOMY

¶ 9. (U) The U.S. investment in Chad's oil sector is the single biggest American private enterprise investment in Sub-Saharan Africa and the American economy has been a major beneficiary of this huge investment. During its construction phase, the project generated over 1,000 American jobs. Even now, under routine operations, the current 260 American jobs generate over USD 83 million in personal income. Right now, over 50 percent of the consortium's material purchases and contracted labor are U.S. based, which represented USD 300 million in 2008. ExxonMobil and Chevron purchased 24 million barrels of Chad's crude oil in 2008 for distribution and use in the United States. Finally, to date, over USD two billion/billion of profit has been returned to U.S. shareholders through dividends.

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COMMENT

¶ 10. (SBU) Chad depends on its oil royalties, taxes, and fees for most of its public revenues. Reduced production or limitation of future capital investment would have a minor negative impact on the U.S. economy but would be devastating to Chad's public finances and might be source of political instability. The equities of both the U.S. and Chad are protected by continued close collaboration between ESSO-Chad and the GOC.

¶ 11. (U) Minimize considered.
NIGRO